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AUTHOR Nussbaum, Thomas J.; Cabaldon, Christopher L.
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ABSTRACT

This document discusses the principles that guide the development of the contingent funding methods and the implementation criteria for the Partnership for Excellence Program, as well as significant issues and questions for the system to resolve. The first principle states that the level and pace of progress toward the Partnership goals are not expected to be uniform among all 71 districts in California. Secondly, the funding methods and implementation criteria should reflect that progress will differ among the five Partnership goals over time. The third principle states that the level of progress is dependent upon: (a) the State's responsibility to provide full funding for enrollment growth, inflation, and the Partnership itself; and (b) exogenous factors beyond the direct control of the system, the colleges, and the State. The fourth principle supports permanent funding in order to allow districts to make long-term plans. The fifth principle allows for funding to be adjusted based upon the level of improvement achieved by district. The sixth principle provides for a reward structure to encourage districts to reach their performance goals. The seventh principle demands an accountability system to prevent grade inflation, or manipulation of data. Finally, the eighth principle encourages an easily comprehensible system. The document concludes with a brief description of the process and time frame for the activities mentioned. The appendix contains the education code. (TGO)

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Developing Contingent Funding Methods for the Partnership for Excellence: A Chancellor's Office Working Paper

Thomas J. Nussbaum
Cristopher L. Cabaldon

California Community Colleges

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Developing Contingent Funding Methods for the Partnership for Excellence: A Chancellor's Office Working Paper

Thomas J. Nussbaum, Chancellor
Christopher L. Cabaldon, Vice Chancellor for
Governmental Relations & External Affairs

At the initiative of the Board of Governors, the Partnership for Excellence was codified and funded at an initial level of \$100 million in the 1998-99 State Budget. The program is a mutual commitment whereby the State of California makes a substantial financial investment in exchange for a "credible commitment from the System to specific student and performance outcomes." (Chancellor's Office, 1999)

The Partnership for Excellence is consistent with similar efforts across the nation. Performance measures are used to allocate funds to postsecondary institutions by 23 states (Christal, 1997). One-third of these states directly link a small proportion of budget appropriations (1/2% to 5%) to performance measures; South Carolina intends to allocate 100% of higher education funds based on postsecondary performance measures by next year. The funding level in the Partnership for Excellence represents approximately 4.6% of state appropriations to the California Community Colleges, and about 2.5% of the overall system budget.

Since the creation of the Partnership, California has elected a new Governor who has made education accountability and performance outcomes assessment major themes of his administration. The Governor has proposed, and has won initial favorable consideration from the Legislature for, sweeping accountability initiatives for the elementary and secondary schools, and he has made a long-term financing plan for the University of California and California State University contingent on "negotiated goals, measurable performance objectives, and fiscal consequences for failure to meet objectives." (Department of Finance, 1999)

Fig 1.
**Annual System
Performance Goals**

1. An increase from 69,574 to 92,500 in the number of students who transfer to baccalaureate institutions.
2. An increase from 80,799 to 110,500 in the number of degrees and certificates awarded.
3. An increase from 68.1% to 70.6% in the overall rate of successful course completion.
4. An increase from 943,631 to 1,279,716 in the number of successfully completed apprenticeship, introductory, and advanced vocational courses; an increase from 1,263 to 1,700 in the number of California businesses and an increase from 73,870 to 99,600 in the number of employees benefiting from contract education training; and an increase from 140,505 to 189,700 in the number of individuals receiving fee-based job training.
5. An increase from 108,566 to 150,754 in the number of students completing coursework at least one level above their prior basic skills enrollment.

Note: Goals are further disaggregated into subgoals within the Partnership. The system has committed to achieving all goals by the year 2005.

The new Governor strongly endorsed the Partnership for Excellence in his 1999-2000 Budget, calling it the "first large scale attempt to link higher education accountability to funding." Although the initial budget proposed only \$110 million for 1999-2000, the Governor indicated that further increases would be tied to, among other things, the "appropriateness of the contingent funding mechanism called for in the enabling legislation."

The Partnership for Excellence establishes system-level goals for improvements in student outcomes, to be achieved as a result of sustained achievement by the year 2005. The goals, which are summarized in Figure 1, span five areas that are broadly reflective of the mission of the California Community Colleges and public policy objectives articulated by the Legislature and Governor.

Partnership funds are distributed to local districts on the basis of full-time equivalent student (FTES) enrollment. This FTES approach extends for the first three years of the program. At the end of the three year period, and each year thereafter, the Board may implement a "contingent funding allocation method" if it determines such a method to be necessary to either improve system performance or to reward significant or sustained improvement by individual districts. The precise form of a contingent funding method is not prescribed in the Partnership statute, except that any such method must "link allocation of . . . funds to individual districts to the achievement of and progress toward Partnership for Excellence goals by those districts." (See Appendix)

The Partnership statute directs the Board of Governors to develop one or more contingent funding methods, as well as the criteria that would trigger implementation of such a method, prior to the end of the initial three-year FTES funding period. Specifically, the statute requires the following Phase II activities:

The Chancellor proposes to the Board of Governors one or more contingent funding methods.

April 15, 2000

The Chancellor proposes to the Board the criteria that would require the implementation of a contingent funding method.

April 15, 2000

Based on an assessment of the extent to which achievement of system goals has been satisfactory and on the Board's established criteria, the Board determines whether to implement a contingent funding method.

April 15, 2001 and each year thereafter until 2005

This working paper outlines and discusses the principles that might guide the development of the contingent funding method(s) and the implementation criteria, as well as significant issues and questions for the system to resolve. It closes with a brief description of the process and timeframe for these activities.

Principles & Research Questions

Before proceeding to development of specific contingent funding allocation methods and implementation criteria, the system should first define a set of fundamental principles. These principles can then be used by the Chancellor, the districts and consultation groups, and the Board of Governors to craft methods and criteria which further the objectives of the Partnership for Excellence in a manner

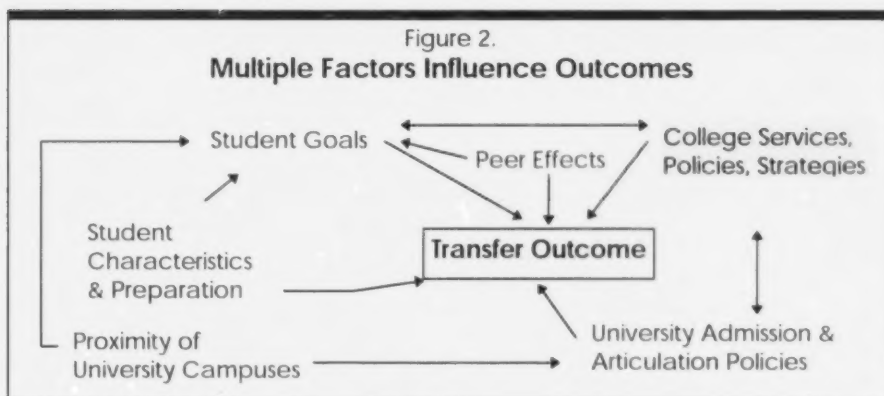
that advances the overall mission of the California Community Colleges. This set of principles, and associated research, modeling, and policy questions, might include the following eight elements:

1. The level and pace of progress toward the Partnership goals are not expected to be uniform among all 71 districts.

Student outcomes are affected by a set of factors of which institutional strategies comprise only a part. Indeed, some outcomes research suggests that most of the variation in student performance can be predicted from student characteristics (e.g. socioeconomic status)—and that the specific impact of particular educational institutions is surprisingly limited (Astin, 1993). Treating all colleges equitably requires that colleges be treated differently in terms of performance expectations.

It might initially appear intuitive simply to calculate a district-level goal based on the district's share of statewide enrollment, so that, for example, Imperial Valley College enrolls 0.42% of all California community college students and thus would have a goal of 97 additional transfers each year by the year 2005. But individual colleges and districts face different challenges and opportunities, because the demographics of their students and the characteristics of the local and regional communities vary widely. Therefore, individual districts should not be expected to make proportionate progress toward all Partnership goals.

Figure 2 presents a conceptual map of the various factors which affect one of the Partnership outcomes—successful transfer to a baccalaureate institution. Transfer rates of individual community colleges are highly correlated with proximity to university campuses, and with the relative elaboration of university policies regarding transfer admission agreements and articulation agreements.



Initial conditions and exogenous variables are outside the control or even the direct influence of an individual community college, and these factors have substantial effects on outcomes. For this reason, the Academic Senate (1998) has suggested "[q]uantitative methods for assessing value-added performance

and controlling for intervening variables" when assessing institutional performance. Such quantitative methods might include (1) specification of an "expected performance" function and (2) estimation of the effects of variables outside the control of the district. More specifically, the Academic Senate has suggested comparing actual performance rates to expected rates (based upon high school grades and test scores), contending that such an approach would "reveal a much more accurate picture of the performance and success" of individual institutions.

Beyond exogenous factors, community colleges are charged with meeting specific local and regional needs. Colleges adapt their emphases on elements of the statewide mission to particular community circumstances and opportunities. A low-wealth community with high unemployment and heavily subscribed public assistance programs might stress vocational programs, and contract education gains are most likely in communities with a large and expanding number of employers rather than in remote rural areas. A contingent funding method should be designed to avoid homogenizing local variation in college mission.

- What are the mechanics of performance improvements (and the technology of student outcomes)? In other words, what do we know and what else can we know about how improvements can be achieved, in operational and budgetary terms?
- What are the factors that influence performance? Intervening variables (e.g., student characteristics, community variables) need to be identified, operationalized, and measured in order to isolate the impact of Partnership investments and other institutional strategies.¹
- If it is not appropriate to allocate the system goals to each district on a proportionate basis under a contingent method, what factors should be taken into account in sensitizing the allocation to local district contexts?

2. The contingent funding methods and implementation criteria should recognize that the trajectory of progress over the 10-year period will differ among the five Partnership goals.

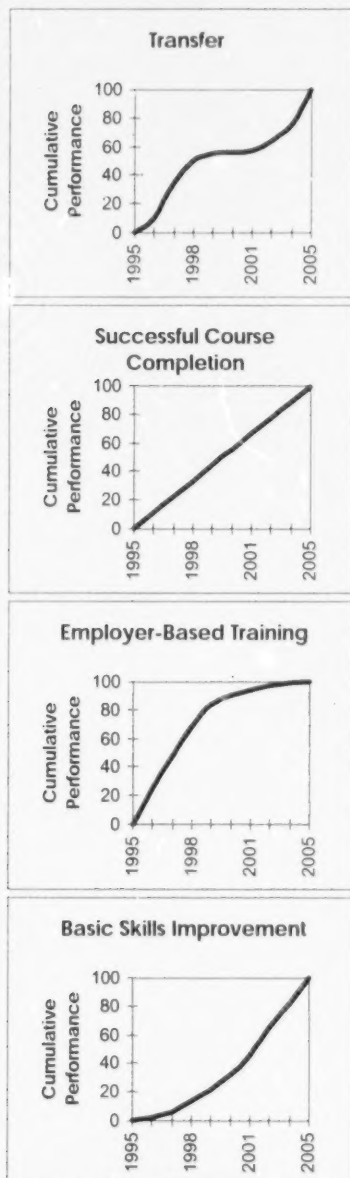
The Partnership for Excellence sets forth system goals to be achieved over a period ending in the year 2005, reflecting the long-term investment orientation (rather than an immediate quick-fix approach) of the program. The five goal areas require different investments and interventions, so the timing of performance improvements will vary. Progress on some goals may be

¹ In a longitudinal study of 39,243 students attending 129 four-year institutions, Astin (1993) found that:

Regardless of where they attend college, the least-well-prepared students are five times more likely to drop out (86 per cent versus 17 per cent) than are the best-prepared students. Thus, institutions that admit large numbers of less-well-prepared students will tend to have low retention rates, and those with well-prepared students will tend to have high rates, regardless of how effective their retention programs are.

Formulas derived from multiple regression analyses . . . show that high-school grades and SAT scores carry the most weight in predicting who will complete college, but that other characteristics of entering students, such as race and sex, also carry some weight. [W]e used these formulas to compute an "expected" retention rate based upon the high-school grades, admissions-test scores, sex, and race of each entering student. By comparing this expected rate with the actual rate, we get a much better indication of how "effective" an institution actually is in retaining and graduating its students.

Figure 3.
Trajectory of Progress is
Likely to Vary Among Goals



Note: Simulations are for illustrative purposes only and are not derived from actual projections.

expected within a relatively short period of time, while significant progress on other goals may be back-loaded in the later years of the Partnership.

Figure 3 illustrates purely theoretical trajectories for four of the goals. A college may achieve significant initial improvements in student transfer as a result of strategies with immediate results, such as revitalization of transfer center services and articulation counseling. After these initial outcomes, however, additional improvement may not occur until the final years of the Partnership as students move through the pipeline over several years and the impact of long-term investments in matriculation, counseling, and transfer admission agreements is realized. These dynamics might become apparent through a trajectory as illustrated in the top box of Figure 3.

Progress toward the Partnership goal for Employer-Based Training, on the other hand, might be expected to be more front-loaded as colleges expand their outreach and service infrastructure. Sustained investment in counseling and full-time faculty might result in linear progress toward the Successful Course Completion goal.

The point here is not that the specific trajectories in Figure 3 are likely, but rather that the actual mechanics of performance improvement dictate differential expectations of the timing of progress for each of the Partnership goals.

- What is the historical experience of the California Community Colleges? How much movement have other states experienced in these areas, and over what period of time?
- How quickly can student outcome improvements be reasonably achieved? The trajectory of progress over time for each of the five goals needs to be estimated so that benchmarks for year three and beyond can be established. Those benchmarks will be critical in determining whether, at the statewide aggregate level, achievement of the system goals has been satisfactory or less than satisfactory.
- Is all progress equal, regardless of the goal area, implying interchangeability? If 150% of the transfer goal is achieved, is it acceptable for only 50% of the degrees and certificates goal to be realized?
- If a contingent funding method is triggered by less than satisfactory progress at the system level, how can goals be applied at the district level? The trajectories, taken together with the variables discussed in Principles 1 and 2, could be used to develop district-level expected performance functions from which district-specific goals could then be derived.²

3. The attainable level of progress toward the goals is dependent on (1) fulfillment of the State's responsibility under the Partnership to provide full funding for enrollment growth, inflation/COLA, and the Partnership itself and (2) exogenous factors beyond the direct control of the system, the colleges, and the State.

The target figures for the Partnership goals (Figure 1) were derived using very precise assumptions regarding enrollment growth, inflation, and the level of Partnership funding. Indeed, the goals were required to "exceed what could be expected to occur based on increases in [projected] funded enrollment."

² District-specific quantitative analysis is already used by the Chancellor's Office to forecast enrollment growth and capital outlay needs.

Variations in actual enrollment, inflation, and Partnership must be factors in the criteria for determining whether to implement a contingent funding method.

If, for instance, the system is funded for only 2% enrollment growth each year even though the conservative enrollment forecasts of the Department of Finance project growth in the range of 2.6% annually, then there will be about 10,000 fewer students to prepare for transfer or degrees or the workforce.³ At the end of the three-year initial period, the 30,000-student deficit must be considered, at least in part, in determining whether satisfactory progress has been achieved.

This does not necessarily mean that the relationship is exactly proportionate—for instance, that 55% COLA, 55% Partnership funding, and 1.4% enrollment growth funding will translate into a performance level of 55% of the target goal. Instead, the system must assess how such funding and enrollment reductions might reasonably impact progress. To maintain good faith with the State, and because the system is fully committed to the highest level of student outcomes possible given available resources, it might be appropriate to begin with the notion that achievement of the goals with only partial funding would be at least proportionate to the funds appropriated.

Some goals, of course, will be less sensitive to enrollment funding fluctuations. The successful course completion rate is not closely correlated with actual or funded enrollment, and the number of students who transfer to baccalaureate institutions is related more to the number of high school graduates entering postsecondary education than to total community college enrollment growth.

In addition to state funding considerations, other exogenous determinants of outcomes deserve consideration in both the implementation criteria and the contingent methods. For example, the magnitude and character of unemployment, growth in various sectors of the California economy, the policies of public and private universities with respect to transfer student admission, and student goals and aspirations significantly influence at least one of the Partnership goal outcomes.

- What proportion of the performance improvement commitment is expected if funding for the Partnership, enrollment growth, or inflation falls short of the State's responsibility under the Partnership?
- 4. **The structure of contingent funding methods and the characteristics of the implementation criteria should provide sufficient certainty so that districts are encouraged to make fundamental and long-term investments with Partnership funds.**

Funds appropriated for the Partnership for Excellence are in the base system budget, but they are not formally part of an individual district's base apportionment and the Education Code anticipates the possibility of redistribution among districts in the event that a contingent funding allocation is implemented. That possibility is intended to provide a powerful incentive to local districts, which have broad flexibility in choosing how to deploy

³ The Department of Finance forecast assumes a community college participation rate of only 64 per 1,000 California adults, and generates an enrollment increase of 21% between 1997 and 2005. The Chancellor's Office forecast for California Community Colleges 2005, on the other hand, projects total enrollment growth of 31% during that period.

"The prospect of redistribution creates significant uncertainty for districts, and it creates a severe disincentive to make long-term investments."

Partnership resources, to work vigorously toward a maximum contribution to achievement of the system goals.

The prospect of redistribution creates significant uncertainty for districts, however, and it creates a severe disincentive to make long-term investments (e.g. hiring permanent faculty or counselors) for which continued funding is not assured. The ambitious goals of the Partnership cannot be achieved using single-shot strategies alone. Achievement of the system goals depends on long-term investment, and the structure and phasing of a contingent funding method should not discourage such a strategy by local districts.

5. The scope and severity of fiscal changes under any contingent funding method should be proportionate to the district-level variation in performance and to the level of improvement achieved.

If the count of districts making satisfactory progress at year three is in the range of 50 to 60, for instance, then the contingent method might best preserve the FTES approach for those districts. Those districts that are not contributing to system progress would be subject to district-specific funding allocations and possibly to other progressive interventions—such as technical assistance—as a condition of continued participation. On the other hand, if most districts are performing satisfactorily but a few districts are making extraordinary contributions to system progress, the contingent method could retain the FTES approach for most districts and provide a supplement to the high-performers.

If most districts are making little or no progress, a broadly district-specific allocation might be appropriate. The point is simply that there must be a relationship between the nature and disaggregated distribution of system progress toward the goals and the ultimate form of the contingent method.

6. Contingent funding allocation methods should reward real value-added improvements in student outcomes at the margin.

There are at least two ways in which institutional performance can be assessed with respect to the Partnership goals. The Board of Governors could establish benchmark levels for all colleges; each institution, for instance, might be expected to achieve a 69% successful course completion rate by year three, with funding allocations then modified based upon meeting that standard. Alternatively, the Board could focus on marginal improvements for every college, so that a college moving from 61% to 63%—but still below the statewide target—would be rewarded at least equivalently to a college that moves from 70% to 70.5%.

The latter approach is superior. The Partnership, and the prospect of the contingent funding method in particular, is designed to create a powerful incentive to strengthen performance. To the extent that district-specific funding is allocated, it ought to reward real improvements in outcomes rather than favorable initial circumstances. Otherwise, a district far below the benchmark may determine that significant effort is pointless because the benchmark is unattainable, and a district above the benchmark has no incentive to improve.

7. Contingent funding allocation methods should avoid distortionary incentives for undesirable behavior such as grade inflation or manipulation of entering class characteristics, enrollment patterns, and curriculum.

The Academic Senate (1998) has advised that "responsible administrators and faculty will need to incorporate into their educational planning consideration of the 'payoff' earned by different parts of the curriculum," causing a "proliferation of courses and sections with higher percentages of successful completion. . . and/or programs or majors which produce more certificates or degrees" and thus a relaxation of academic standards.

Of course, there is nothing new or distinctive about the potential for unintended negative incentives arising from funding allocation structures. Indeed, any state funding structure creates incentives and disincentives for local colleges. The availability of funds for enrollment growth, for example, might encourage college to relax standards in order to attract more students at the margin; providing funding for colleges on a seemingly simple per-student basis might lead colleges to eliminate relatively high-cost programs, such as nursing.

The fact that academic standards remain demanding and high-cost programs are ubiquitous demonstrates the effectiveness of counterbalancing forces, such as (1) community accountability through locally-elected boards of trustees, (2) external evaluation and review through the accreditation process, (3) tenure and other employment protections, and (4) a high level of professionalism and educational integrity among college faculty and administrators. These forces work to mitigate undesirable incentives throughout the array of funding structures used for community colleges, and there is every reason to believe that they will be equally effective with respect to the outcomes-orientation of the Partnership for Excellence. Nevertheless, the design of the contingent funding methods ought to be sensitive to the potential unintended consequences and incorporate mechanisms to detect and correct such responses to Partnership incentives.

- What mechanisms can the system employ to detect grade inflation, curricular manipulation, and other distortionary behavior?

8. The contingent funding allocation methods and the implementation criteria should be easily comprehensible in order to minimize administrative complexity and to ensure appropriate accountability for the State's leadership.

Complex systems tend to collapse under their own weight, and performance budgeting systems are no exception (Mingle, 1997). It is essential that the models, variables, and formulas used in administering the Partnership for Excellence be sufficiently elegant and simple so that they may be widely understood and applied in an effective and equitable manner by the Board of Governors, the Chancellor's Office, and local college trustees, administrators, faculty, staff, and students.

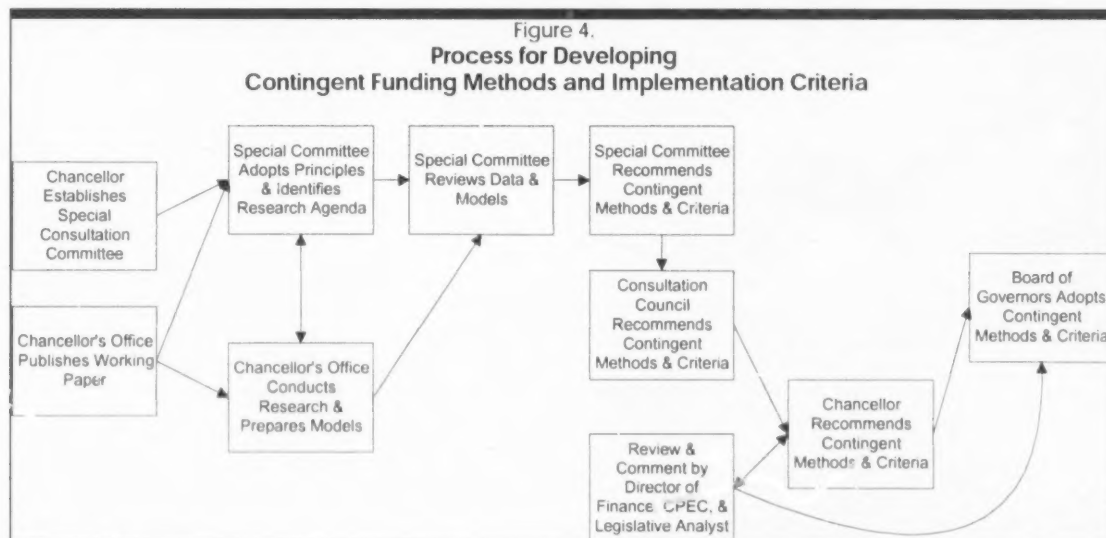
Equally important, a highly elaborated approach, with extensive variables, data requirements, and technical models is unlikely to be embraced by the Governor and the Legislature. If it is to be meaningful and durable, accountability must be comprehensible.

These eight principles represent guideposts for system consideration during development of the contingent methods and implementation criteria. Because it is not possible to simultaneously optimize the policy objectives for all eight principles, and especially the comprehensibility maxim of Principle 8, the system will be called upon to make difficult judgments about the appropriate balance and trade-offs between objectives during the development process.

Process

In March 1999, the Chancellor will establish and appoint a special committee of the Consultation Council to develop recommendations for contingent funding methods and for the criteria that would trigger their implementation. After reviewing this working paper and adopting principles to guide further work, the special committee will work with the Chancellor's Office to identify and conduct a research and modeling agenda. In Fall 1999, the committee will complete its work and forward its recommended contingent funding methods and implementation criteria to the Chancellor and Consultation Council for consideration. The Chancellor will consult with the Council and also seek the concurrence of the Director of Finance, the Legislative Analyst, and the California Postsecondary Education Committee, as prescribed by the Partnership statute. Final consideration of the methods and criteria by the Consultation Council is expected to occur by the Council's January 2000 meeting.

The Chancellor will propose the contingent methods and criteria to the Board of Governors for initial consideration by the Board at its May 2000 meeting and final action at the July 2000 meeting. The implementation criteria will be used by the Board of Governors, upon recommendation by the Chancellor after engaging in consultation, to determine by April 15, 2001, whether to trigger a contingent funding method for the 2001-02 fiscal year.



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Appendix: The Education Code

Enacted as part of the 1998-99 State Budget, the following provisions of Section 84754 of the Education Code prescribe the development and implementation of the contingent funding allocation method(s) as part of the Partnership for Excellence:

(d) (1) The Board of Governors of the California Community Colleges shall also develop, through the consultation process pursuant to Section 70901, one or more contingent funding allocation options, as well as criteria that would require the implementation of these options, that shall link allocation of Partnership for Excellence funds to individual districts to the achievement of an progress toward Partnership for Excellence goals by those individual districts. These contingent funding options may be determined necessary to either improve system performance or to reward significant or sustained achievement.

(2) In developing contingent funding allocation options and criteria for implementation thereof, the Chancellor of the California Community Colleges shall seek the concurrence of the Director of Finance, the Legislative Analyst, and CPEC. These agencies shall each assess the extent to which the contingent allocation options and criteria under consideration by the Board of Governors of the California Community Colleges are clear, reasonable, and adequately meet the state's interest in accountability. On or before April 15, 2000, the chancellor shall propose to the board one or more contingent funding allocation methods and criteria. The board shall consider the comments of the three agencies before approving the criteria and contingent funding allocation options.

(3) The Board of Governors of the California Community Colleges shall have the authority, and shall be accountable, to determine that a funding linkage is needed to adequately improve the performance of the system and its districts and colleges. The board is authorized to allocate all or a portion of Partnership for Excellence funds among districts pursuant to a contingent funding allocation method, as described in this section, commencing in the 2001-02 fiscal year or any fiscal year thereafter as determined necessary by the board. In executing its responsibilities set forth in this subdivision, the board shall engage the consultation process pursuant to Section 70901.

(e) (3) Beginning with the [outcome measures] report due on April 15, 2001, the Board of Governors of the California Community Colleges shall annually assess and report the extent to which achievement of system goals has been satisfactory or less than satisfactory. Based on this assessment and on the criteria adopted as part of the contingent funding allocation plan, the board shall determine, after engaging in the consultation process pursuant to Section 70901, whether or not to implement a contingent funding allocation option described in subdivision (d).